

Message Text

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PAGE 01 OECD P 18217 031208Z

54

ACTION EUR-25

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INFO AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: ECON, OECD, AU

SUBJECT: EDRC ANNUAL REVIEW AUSTRIAN ECONOMY, JULY 9.

REF: EDR(73) 15

1. SUMMARY: DRAFT SURVEY AUSTRIAN ECONOMY FOCUSES ON PROBLEM OF INFLATION AND RECOMMENDS FURTHER COUNTER MEASURES, INCLUDING POSSIBLE USE CURRENCY FLOAT TO ARREST OR REVERSE DEPRECIATION SCHILLING AGAINST NEIGHBOR COUNTRIES' CURRENCIES. END SUMMARY.

2. SECRETARIAT DRAFT SURVEY AUSTRIAN ECONOMY (REF DOC) FOCUSES ON THREE PRINCIPAL SUBJECT: 1. RECENT TRENDS AND PROSPECTS, 2. CAUSES OF ACCELERATING PRICES, AND 3. ROLE OF STABILIZATION POLICIES.

3. SURVEY CONCLUDES PERFORMANCE ECONOMY IN TERMS OF EMPLOYMENT, PRODUCTIVITY AND BALANCE PAYMENTS HAS REMAINED IMPRESSIVE PAST YEAR, BUT PERSISTENCE BOOM CONDITIONS HAS WEAKENED AUSTRIAN RESISTANCE TO WORLDWIDE INFLATION. SURVEY NOTES DANGER THAT CONTINUATION EXCESSIVE PRICE
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PRESSURES AND ENTRENCHMENT INFLATIONARY EXPECTATIONS

COULD SERIOUSLY IMPAIR COOPERATION BETWEEN GOVERNMENT AND SOCIAL PARTNERS. ACCORDING TO SURVEY ACCELERATION INFLATION PAST 18 MONTHS CAN BE ASCRIBED PARTLY TO WIDENING DOMESTIC SECTORAL PRODUCTIVITY DIFFERENTIALS AND STEEPER PRICE TRENDS ABROAD. MAIN FACTOR, HOWEVER, HAS BEEN BUILD-UP EXCESSIVE DEMAND PRESSURES. WAGE BEHAVIOR HAS REMAINED CONSISTENT WITH PREVIOUS CYCLICAL EXPERIENCE.

4. SURVEY SUGGESTS REMOVAL EXCESS DEMAND COULD BE EXPECTED REDUCE PRESSURE WAGE COSTS WITHOUT UNDUE CURRENT AND FUTURE LOSSES OUTPUT AND EMPLOYMENT. POLICY INSTRUMENTS RECOMMENDED FOR USE INCLUDE: CURTAILMENT NEW PUBLIC BUILDING, KEEP GROWTH PUBLIC SECTOR WAGES AND SALARIES WITHIN BOUNDS, RECONSIDERATION PROPOSED FISCAL INCENTIVES FOR INVESTMENT, AND A MORE SELECTIVE APPROACH PUBLIC HOUSING PROMOTION. CENTRAL BANK SHOULD REGAIN CONTROL MONETARY AGGREGATES EVEN IF IT ENTILS HIGHER INTEREST RATES. STRICT PRICE CONTROLS UNDER JUNE STABILIZATION PROGRAM SHOULD BE MAINTAINED AND AUGMENTED IN FLEXIBLE WAY, BUT CAN ONLY BE SUCESSFUL IF DEMAND MANAGEMENT APPROPRIATELY TIGHT. SURVEY ALSO SUGGESTS AUSTRIAN AUTHORITIES MAY WANT USE EXISTING EXCHANGE RATE ARRANGEMENTS TO ARREST OR REVERSE DE FACTO DEPRECIATION OF SCHILLING AGAINST CURRENCIES OF NEIGHBORS.

5. REF DOC AIR POUCHED WASHINGTON AND DIRECT MAILED EMBASSY VIENNA ON JUNE 27. WE INTEND SUPPORT GENERAL LINE AND CONCLUSIONS SURVEY UNLESS OTHERWISE INSTRUCTED. REPRESENTATION EMBASSY VIENNA WELCOMED.
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